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VENEZUELA-ECONOMIC OVERVIEW FIRST QUARTER 2002

*Office of Regional Economic Policy and Summit Coordination
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Venezuela's controversial President Hugo Chavez took office in December 1998 with an ambitious reform agenda, vowing to end corruption and bring the benefits of the country's oil wealth to its largely poor population. Venezuela's \$128 billion economy and 25 million people have historically depended on oil. Petroleum generates about 1/3 of GDP, 80% of export revenues and over 50% of government revenues. Venezuela suffered through a deep recession in 1999, but recovered in 2000 on higher oil earnings. Growth was 2.7% in 2001, fueled by increased government and consumer spending, though oil prices fell sharply as the global economic slowdown weakened demand. In 2002, despite an expected global recovery, the economy may contract 1-2% as oil prices remain weak, and inflation may near 20%.

The U.S. is Venezuela's leading trading partner, with 57% of Venezuelan exports headed to the U.S. and 53% of imports originating in the U.S. Other major trading partners include Colombia, Japan, Brazil, Germany and Italy. Besides petroleum, Venezuela also exports bauxite, aluminum, chemicals, corn, sugarcane and coffee. Imports include raw materials, machinery and equipment and vehicles. Venezuela is a member of the Andean Community. President Chavez has been highly critical of the FTAA process, neo-liberal policies and regional integration efforts. Venezuela seeks Andean Trade Preference Act (ATPA) benefits from the U.S. government, but Congress, to date, has not included Venezuela in ATPA.

Entering 2002, weak oil prices and high spending left Venezuela facing a possibly \$9 billion (5.6% of GDP) fiscal deficit. The political situation had deteriorated, with poverty and unemployment still very high (despite efforts to address them). President Chavez' domestic popularity has fallen, and his anti-market, anti-U.S. rhetoric has discouraged investors, accelerated capital flight to over \$1.3 billion/month, and heightened pressure on the bolivar. In November the President's approval of 49 new laws, among them a statist hydrocarbons law and a land reform law allowing expropriations, stirred more controversy. A major strike December 10, and criticism of the President by active military officers in February, further increased political tension. In February the government dropped its exchange band and moved to a free float, and announced budget cuts of 7%, revision of oil price assumptions and a drawdown of its \$6.2 billion economic stabilization fund in an effort to bridge the financing gap.

VENEZUELA	2000	2001	2002
Real GDP (USD bil)	108.9	128.2	115.0
Real GDP Growth (%)	3.2	2.7	-1.0
Per Capita GDP (USD)	4482	5151	4527
Inflation (CPI)	13.4	12.3	19.5
USD Exchange Rate (avg.)	682.0	724	902
Unemployment (urban)	14.1	13.0	13.8
Fiscal Balance (% GDP)	-1.8	-5.9	-4.5
Current Acct. Bal. (% GDP)	12.3	3.4	1.4
For. Dir. Inv. (USD bil)	3.8	2.6	1.5
Exports** (USD bil)	33.0	27.1	20.2
Imports** (USD bil)	15.5	17.3	14.8
Total Ext. Debt (USD bil)	34.1	34.5	34.6
Ext. Debt/GDP	28.3	26.9	30.1
Ext. Debt/Exports	103.3	127.3	171.3

Sources: Finance Ministry, Budget Office, Central Bank and Santander Central Hispano *Projected **Merchandise only